BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C.  20268-0001

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Postal Rate and Fee Changes, 1997    )          Docket No. R97-1

## ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
## TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
## WITNESS:  JAMES F. CALLOW (USPS/OCA-T500-22-28)
## (February 3, 1998)

The Office of the Consumer Advocate hereby submits the answers of James F.

Callow to interrogatories USPS/OCA-T500-22-28, dated January 20, 1998.  Each

interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

*Shelley S. Dreifuss*

SHELLEY S. DREIFUSS
Attorney
Office of the Consumer Advocate

USPS/OCA-T500-22. Please refer to your testimony at page 6, line 14. Clarify the meaning of "larger CAG offices." Does this refer to larger offices in each CAG category, or higher CAG offices (with CAG A the highest and CAG L the lowest)?

A.    The phrase "larger CAG offices" refers to higher CAG offices, i.e., CAG A offices the highest and CAG L offices the lowest.

USPS/OCA-T500-23. Please refer to your testimony at page 7, lines 8 to 9, where you state that:

> Average postal rental costs are higher in larger offices, as measured by CAG.

(a) Please confirm that, according to Table 2 on page 17 of your testimony, the CAG rankings by average rental costs start with CAG E with the highest cost, followed by CAGs F, C, D, G, H, B, J, K, and L, with the lowest cost. If you do not confirm, please explain why not.

(b) Please confirm that your statement on page 7 therefore does not hold true for non-city offices. If you do not confirm, please explain why not.

(c) Is the reason that average rental costs are greater for CAGs E through L non-city offices than for CAGs E through L city-other offices, respectively (according to your Table 2), that the non-city offices are larger on average than the city offices in each of those CAGs? Please explain your answer fully.

A. (a) Partially confirmed. The ranking of offices by CAG level in part (a) applies only to the non-city delivery offices in Table 2. The ranking does not apply to city-other delivery offices.

(b) Not confirmed. The ranking in part (a) simply shows the fact that the average postal rental costs by CAG are not monotonic. When CAG levels are viewed from highest to lowest, some lower CAG offices have higher average rental costs than higher level CAG offices. This condition holds not only when average rental costs by CAG are examined for non-city delivery offices, but also for city-other delivery offices, see OCA-LR-2 at 16, and for all offices by CAG. See Docket No. MC96-3, Tr. 8/2916.

Nevertheless, even with the variation in average rental costs by CAG, the general proposition stated in the quoted passage still holds: Average postal rental costs are higher in larger CAG offices. Excluding CAG B offices for non-city delivery,

only two offices have average rental costs greater than CAG C; six CAG levels have average rental costs below CAG C. Similarly, for CAG D offices, only three CAG levels have average rental costs higher than CAG D, and five have average rental costs below CAG D.

Moreover, I rejected establishing my new fee groups based upon individual CAG levels. Thus, my fee groups are unaffected by the fact that the average rental costs by CAG are not monotonic. Instead, my new fee groups are based upon groupings of CAG levels. The result is that the groupings of the highest CAG levels (e.g., A-D) have, with one exception, higher average rental costs than groupings of lower CAG level offices (e.g., E-G, and H-L). It should be noted that when the average rental cost for the three non-city CAG B offices is excluded, the weighted average rental cost for CAG A-D non-city delivery offices has a higher average rental cost ($7.38) than the other two grouping of offices by CAG.

In developing my new fee groups, I considered that the six fee groups I proposed would be merged into three in a future proceeding. Consequently, the existence of one new fee group (e.g., D-I) with an average rental cost one percent less than average for D-II did not seem problematic.

(c)     I do not know.

USPS/OCA-T500-24. Please refer to your testimony at page 8, lines 12 to 13, and page 9, lines 1 to 2 and 18 to 19.

     (a)     Please explain what you mean by "proportionately" and "proportionally".

     (b)     Does each of the cited statements apply to costs per box? Please provide any data supporting an affirmative response.


A.     (a) - (b)     In preparing my testimony, I considered the terms "proportionately"

and "proportionally" to be synonymous. Rather than give every boxholder (separately

for Fee Groups C and D) an equal amount of such costs, I distributed them more

proportionately than did witness Lion because I only allocated such costs to offices that

incurred them and refrained from including such costs in the volume-variable cost base

of offices in which such costs were not present.

USPS/OCA-T500-25. Please refer to Table 1 on page 11 of your testimony.

    (a)    Please confirm that the average rental costs for CAG A through D city-other offices are all within 84 cents of each other, while each of these costs (excluding CAG A, for which there is no non-city comparison) are at least $1.26 more than the average rental cost for the comparable CAG B through D non-city office (e.g., CAG B city-other is $3.09 greater than CAG B non-city). If you do not confirm, please explain why not.

    (b)    Please confirm that the average rental costs for CAG H through L non-city offices are all within 61 cents of each other, while each of these costs are at least $1.05 more than the average rental cost for the comparable CAG H through L city-other office (e.g., CAG H non-city is $1.05 greater than CAG H city-other). If you do not confirm, please explain why not.

A.    (a)    Confirmed. However, comparing the average rental cost of city-other

CAG B offices and non-city CAG B offices is of questionable value. The average rental

cost of $5.93 per square foot for CAG B offices in the non-city delivery group is

computed from only three offices. This small number of observations might explain the

comparatively low average rental cost for CAG B offices in this delivery group, and

relative to CAG B offices in the city-other delivery group.

    (b)    Confirmed. The facts stated in the question reinforce my position that,

eventually, new fee groups C-III and D-III should be merged, because, while CAG H-L

city-other average rental costs are somewhat lower than CAG H-L non-city average

rental costs, the current fees paid by city-other boxholders are far higher than those

paid by non-city boxholders.

USPS/OCA-T500-26. Please refer to Table 3, on page 18 of your testimony.

(a)    Please confirm that the difference between the total installed boxes (14,190,165) in Table 3 and the corresponding total (14,290,298) in Table 1 of witness Lion's testimony (USPS-T-24) is due entirely to your omission of boxes from records in Postal Service library reference H-278 for which there is no data on Delivery Group or CAG. If you do not confirm, please explain why not.

(b)    Do you know the effect on your analysis of omitting these records? If so, please explain the effect.

A.    (a)    Confirmed.

(b)    I did not consider the difference in the number of boxes installed on my

analysis since my proposal is based upon post office boxes in offices grouped by CAG

level, which form my new fee groups.

USPS/OCA-T500-27. Please refer to Table 17, at pages 61-62 of your testimony.

(a)     Please confirm that your proposed fees for proposed fee groups C-II and C-III are higher than your proposed fees for proposed fee groups D-I, D-II, and D-III, even though group D-I consists of higher CAGs than either group C-II or C-III, and group D-II consists of higher CAGs than group C-III. If you do not confirm, please explain why not.

(b)     Is it reasonable to conclude that your proposed fees for groups C-I, C-II, C-III, D-I, D-II, and D-III are based primarily on delivery group, and only secondarily on CAG? Please explain.

A.     (a)     Confirmed.

(b)     No. I proposed different fees for my new fee groups that, although

consisting of the same CAG levels and found in Fee Groups C and D, reflected the

higher allocated costs for boxes in my new fee groups having higher CAG offices. The

differential fees in the new fee groups consisting of the same CAG levels in Fee Groups

C and D also served to avoid rate shock and ease the transition to a uniform fee by box

size for each CAG grouping comprising the new fee groups. See OCA-T-500 at 65-66.

USPS/OCA-T500-28. Please refer to your testimony at page 72, lines 12-13, where you state that:

> Restructuring Fee Groups C and D based upon CAG produces more rent-homogeneous fee groups that better reflect cost in larger and smaller offices.

    (a)    With reference to the upper table on page 15 of OCA-LR-2, please confirm that the coefficients of variation for new groups CD1, CD2, and CD3 are 76.6 percent, 64.3 percent, and 47.7 percent, respectively. If you do not confirm, please explain why not.

    (b)    With reference to the upper table on page 15 of OCA-LR-2, and considering those rents (RCSF) that are within one standard deviation of the mean rent for each of groups CD1, CD2, and CD3, please confirm that there is substantial overlap of the variable RCSF among these three groups. If you do not confirm, please explain why not.

    (c)    Based on the coefficients of variation and the overlap of rents for new groups CD1, CD2, and CD3, do you consider each of these new groups to be "rent-homogeneous"? Please explain your reasoning.

    (d)    With reference to the lower table on page 15 of OCA-LR-2, please confirm that the coefficients of variation[ ] for rental cost per square feet for CAGs A through L range from 45.5 percent (CAG J) to 80.7 percent (CAG A). If you do not confirm, please explain why not.

    (e)    With reference to the lower table on page 15 of OCA-LR-2, and considering those rents (RCSF) that are within one standard deviation of the mean rent for each CAG, please confirm that there is substantial overlap of the variable RCSF among the CAGs. If you do not confirm, please explain why not.

    (f)    Based on the coefficients of variation and the overlap of rents that can be derived from the lower table on page 15 of OCA-LR-2 for each CAG, do you consider each of CAGs A through L to be "rent-homogeneous"? Please explain your reasoning.

    (g)    Please provide a version of the upper table on page 15 of OCA-LR-2 that divides groups CD1, CD2, and CD3 into the fee groups you propose in your testimony - C-I, C-II, C-III, D-I, D-II, and D-III.


A.    (a)    Although I am not a statistician, I am aware that when the mean is divided

by the standard deviation for CD1, CD2 and CD3, I obtain the percentages 76.6, 64.3

and 47.7 cited in part (a) of the interrogatory. Please note that I did not rely on such

comparisons in developing my groups. It should also be noted that, using the same

calculation, the percentages for new groups CD1 and CD2 are smaller than the

percentage calculated for delivery group C, and the percentage for CD3 is smaller than

the percentage for delivery group D. *See* table below.

| USPS GROUP | Mean | Std. Dev. | Mean / Std. Dev. |
|---|---|---|---|
| A | $23.49 | 17.1993379 | 73.2% |
| B | $16.74 | 10.6920571 | 63.9% |
| C | $7.71 | 6.0529773 | 78.6% |
| D | $6.00 | 2.8884734 | 48.1% |
| E | $7.19 | 3.8095395 | 53.0% |

Source: US Postal Service LR-H-188 at 23 and 24.

(b)     While it is apparent that there is overlap among the groups CD1, CD2 and

CD3, I am unable to confirm whether it constitutes "substantial" overlap. *Compare* OCA

Groups A, B, CD1, CD2 and CD3 with USPS Groups A, B, C and D, below.

| OCA GROUP | Mean | Std. Dev. | Mean - Std. Dev. | Mean + Std. Dev. |
|---|---|---|---|---|
| A | $23.49 | 17.1993379 | 6.2911601 | 40.6898359 |
| B | $16.74 | 10.6920571 | 6.0510012 | 27.4351154 |
| CD1 | $9.05 | 6.9274203 | 2.1220541 | 15.9768947 |
| CD2 | $7.05 | 4.5347886 | 2.5127599 | 11.5823371 |
| CD3 | $5.79 | 2.7621283 | 3.0250878 | 8.5493444 |
| E | $7.19 | 3.8123217 | 3.3812584 | 11.0059018 |

Source: OCA-LR-2 at 15.

| USPS GROUP | Mean | Std. Dev. | Mean - Std Dev | Mean + Std Dev |
|---|---|---|---|---|
| A | $23.49 | 17.1993379 | 6.2911601 | 40.6898359 |
| B | $16.74 | 10.6920571 | 6.0510012 | 27.4351154 |
| C | $7.71 | 6.0529773 | 1.6521167 | 13.7580713 |
| D | $6.00 | 2.8884734 | 3.1126676 | 8.8896144 |
| E | $7.19 | 3.8095395 | 3.3837174 | 11.0027964 |

Source: US Postal Service LR-H-188 at 23 and 24.

(c)　　Yes. In developing my new groups, C-I, C-II, C-III, D-I, D-II and D-III, I found that the average rental costs for each new group was more rent-homogeneous than the average for their respective delivery groups as a whole. *See* OCA-T-500 at 16-17.

(d)　　Although I am not a statistician, I am aware that when the mean is divided by the standard deviation for CAGs A through L, I obtain percentages for the CAG levels that range from 45.5 percent (CAG J) to 80.7 percent (CAG A). Please note that I did not rely on such comparisons in developing my groups.

(e)　　While it is apparent that there is overlap among the CAG levels, I am unable to confirm whether it constitutes "substantial" overlap.

(f)　　See response to (c) above. In any event, the rent homogeneity of individual CAG levels in irrelevant to my proposal because my new fee groups are based on groupings of several CAG levels.

(g)　　*See* attached table. *See also* OCA-T-500, Table 2.

Rental Cost per SF, by NEWGRP, H-216 data                    1
08:53 Monday, February 2, 1998

Analysis Variable  :  RCSF

| NEWGRP | N Obs | N | Mean | Std Dev | Minimum | Maximum |
|--------|-------|---|------|---------|---------|---------|
| A | 30 | 30 | 23.4904980 | 17.1993379 | 0.0019685 | 64.0482433 |
| B | 153 | 153 | 16.7430583 | 10.6920571 | 0.0051282 | 43.5236769 |
| CI | 3017 | 3017 | 9.0681161 | 6.9529147 | 0.0076923 | 35.7997936 |
| CII | 2261 | 2261 | 6.8796686 | 5.1052680 | 0.0076923 | 34.4827586 |
| CIII | 772 | 772 | 4.9649169 | 2.6802886 | 0.8640000 | 26.6166667 |
| DI | 31 | 31 | 7.2352096 | 3.2521942 | 1.4803597 | 13.3088042 |
| DII | 1521 | 1521 | 7.2971055 | 3.5066756 | 1.2860483 | 17.8618682 |
| DIII | 12618 | 12618 | 5.8375263 | 2.7592156 | 1.2847966 | 17.8722003 |
| E | 4170 | 4170 | 7.1935801 | 3.8123217 | 1.0666667 | 23.3690360 |

```
******************************************************************;
*       Program: NBOXSQF.SAS                                     ;
*                                                                ;
*       This program retabulates the H-216 data file RENT.DATA   ;
*       to produce cost per square foot estimates for the        ;
*       Delivery groups requested by the Postal Service in       ;
*       in OCA/USPST500-28(g)                                     ;
******************************************************************;

filename  in1   't:\r97-1\libref\h-216\rent.data';
filename  in1   'c:\trash\rent.data';

proc format; *formats for the delivery group codes;
        value $dgrp
        'A'='City-A'
        'B'='City-B'
        'C'='City-Other'
        'D'='Non-city'
        'E'='Nondel.'
        ;
data a;
  infile in1 dlm=' , '  firstobs=2;
  input group $ cag $ rcsf ra sf;
  if cag~=";   **eliminate records with missing cag or group;
  if group~="; **eliminate records with missing cag or group;
        if group='A' then newgrp='A  ';
        if group='B' then newgrp='B  ';
        if group='C' then do;
              if 'A'<=cag<='D' then newgrp='CI ';
              else if 'E'<=cag<='G' then newgrp='CII ';
              else if 'H'<=cag<='L' then newgrp='CIII';
              end;

        if group='D' then do;
              if 'A'<=cag<='D' then newgrp='DI ';
               else if 'E'<=cag<='G' then newgrp='DII ';
               else if 'H'<=cag<='L' then newgrp='DIII';
              end;
```

```
if group='E' then newgrp='E   ';

*if group='C' or group='D' then do;
*       if 'A'<=cag<='D' then newgrp='CD1';
*       if 'E'<=cag<='G' then newgrp='CD2';
*       if 'H'<=cag<='L' then newgrp='CD3';
*       end;
*save formatted delivery group as DGROUP;
dgroup=put(group, $dgrp.);
```

# DECLARATION

I, James F. Callow, declare under penalty of perjury that the answers to

interrogatories USPS/OCA-T500-22-28 of the United States Postal Service are true and

correct, to the best of my knowledge, information and belief.

Executed ___2-3-98___

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all

participants of record in this proceeding in accordance with section 12 of the rules of

practice.

*Shelley S. Dreifuss*

SHELLEY S. DREIFUSS
Attorney

Washington, DC   20268-0001
February 3, 1998